

HARRAHS ENTERTAINMENT INC  
Form 10-Q  
August 08, 2006

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the Quarterly Period Ended **June 30, 2006**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. **1-10410**

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## HARRAH S ENTERTAINMENT, INC.

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
or organization)  
**One Caesars Palace Drive**  
**Las Vegas, Nevada**  
(Address of principal executive offices)

**I.R.S. No. 62-1411755**  
(I.R.S. Employer  
Identification No.)  
**89109**  
(Zip Code)

**(702) 407-6000**

(Registrant's telephone number, including area code)

**2100 Caesars Palace Drive**  
**Las Vegas, Nevada 89109**

(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 31, 2006, there were 185,818,467 shares of the Company's Common Stock outstanding.

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**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

The accompanying unaudited Consolidated Condensed Financial Statements of Harrah's Entertainment, Inc., a Delaware corporation, have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for complete financial statements in conformity with generally accepted accounting principles in the United States. The results for the periods indicated are unaudited, but reflect all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of operating results.

As discussed in Note 4 to these Consolidated Condensed Financial Statements, on June 13, 2005, Harrah's Entertainment, Inc., completed the acquisition of Caesars Entertainment, Inc. These Consolidated Condensed Financial Statements include the financial results of Caesars Entertainment, Inc., subsequent to the acquisition date.

Results of operations for interim periods are not necessarily indicative of a full year of operations. These Consolidated Condensed Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed on August 8, 2006, and our Current Report on Form 8-K, filed on August 8, 2006, to present Harrah's Lake Charles as discontinued operations in our consolidated financial statements and notes thereto for the year ended December 31, 2005.

**HARRAHS ENTERTAINMENT, INC.**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**  
**(UNAUDITED)**

(In millions, except share amounts)	June 30, 2006	Dec. 31, 2005
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 636.9	\$ 724.4
Insurance receivables for hurricane damage	93.5	87.3
Other receivables, less allowance for doubtful accounts of \$114.7 and \$111.8	343.6	340.0
Deferred income taxes	228.6	219.8
Income tax receivable	39.5	77.4
Prepayments and other	186.1	120.7
Inventories	62.4	59.5
Total current assets	1,590.6	1,629.1
Land, buildings, riverboats and equipment	15,613.8	14,664.7
Less: accumulated depreciation	(2,453.6 )	(2,151.9 )
	13,160.2	12,512.8
Assets held for sale (Notes 1 and 10)	89.8	443.3
Goodwill (Notes 3 and 4)	3,243.2	3,135.5
Intangible assets (Notes 3 and 4)	2,008.9	2,017.9
Deferred costs and other	628.9	779.0
	\$ 20,721.6	\$ 20,517.6
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 370.1	\$ 365.2
Accrued expenses	1,241.3	1,226.2
Current portion of long-term debt (Note 6)	175.0	7.0
Total current liabilities	1,786.4	1,598.4
Liabilities held for sale (Notes 1 and 10)	3.7	12.1
Long-term debt (Note 6)	10,662.5	11,038.8
Deferred credits and other	351.4	324.2
Deferred income taxes	1,922.0	1,847.4
	14,726.0	14,820.9
Minority interests	56.5	31.6
Commitments and contingencies (Notes 6, 8 and 9 through 11)		
Stockholders' equity (Notes 2, 4 and 5)		
Common stock, \$0.10 par value, authorized 720,000,000 shares, outstanding 185,121,711 and 183,833,358 shares (net of 35,663,423 and 35,639,390 shares held in treasury)	18.5	18.4
Capital surplus	5,101.6	5,008.4
Retained earnings	831.2	654.4
Accumulated other comprehensive loss	(4.8 )	(5.3 )
Deferred compensation related to restricted stock	(7.4 )	(10.8 )
	5,939.1	5,665.1
	\$ 20,721.6	\$ 20,517.6

See accompanying Notes to Consolidated Condensed Financial Statements.

**HARRAHS ENTERTAINMENT, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF INCOME**  
**(UNAUDITED)**

(In millions, except per share amounts)	Second Quarter Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
<b>Revenues</b>				
Casino	\$ 1,916.2	\$ 1,256.4	\$ 3,814.3	\$ 2,352.7
Food and beverage	386.4	207.0	781.0	377.8
Rooms	312.5	133.0	626.7	233.1
Management fees	21.6	17.4	43.1	32.9
Other	148.2	78.0	286.9	135.5
Less: casino promotional allowances	(411.0 )	(268.4 )	(821.2 )	(489.4 )
Total revenues	2,373.9	1,423.4	4,730.8	2,642.6
<b>Operating expenses</b>				
<b>Direct</b>				
Casino	955.8	623.9	1,871.0	1,168.7
Food and beverage	162.2	86.6	344.5	154.0
Rooms	60.8	24.3	131.1	40.1
Property general, administrative and other	522.4	293.1	1,021.2	541.1
Depreciation and amortization	161.9	103.9	317.9	191.3
Write-downs, reserves and recoveries	7.2	22.4	10.4	25.1
Project opening costs	4.7	3.6	9.1	5.4
Corporate expense	45.7	21.9	88.2	38.3
Merger and integration costs for Caesars acquisition	6.4	16.7	19.8	20.7
Hurricane expense			0.1	
(Income)/losses on interests in nonconsolidated affiliates	(1.0 )		(3.1 )	0.2
Amortization of intangible assets	16.1	3.4	35.8	6.9
Total operating expenses	1,942.2	1,199.8	3,846.0	2,191.8
Income from operations	431.7	223.6	884.8	450.8
Interest expense, net of interest capitalized	(162.2 )	(88.9 )	(326.5 )	(167.5 )
Losses on early extinguishments of debt	(61.1 )		(61.1 )	(2.2 )
Other income, including interest income	1.6	3.2	1.8	3.1
Income from continuing operations before income taxes and minority interests	210.0	137.9	499.0	284.2
Provision for income taxes	(77.7 )	(53.6 )	(183.3 )	(108.9 )
Minority interests	(3.6 )	(3.0 )	(9.5 )	(5.5 )
Income from continuing operations	128.7	81.3	306.2	169.8
<b>Discontinued operations</b>				
(Loss)/income from discontinued operations (including gain on sale of \$0, \$119.1, \$0 and \$119.1)	(0.1 )	126.6	7.3	150.4
Provision for income taxes		(102.1 )	(2.5 )	(110.6 )
(Loss)/income from discontinued operations, net	(0.1 )	24.5	4.8	39.8
Net income	\$ 128.6	\$ 105.8	\$ 311.0	\$ 209.6
<b>Earnings per share - basic</b>				
Income from continuing operations	\$ 0.70	\$ 0.66	\$ 1.67	\$ 1.44
Discontinued operations, net		0.20	0.02	0.33
Net income	\$ 0.70	\$ 0.86	\$ 1.69	\$ 1.77
<b>Earnings per share - diluted</b>				
Income from continuing operations	\$ 0.69	\$ 0.65	\$ 1.64	\$ 1.41
Discontinued operations, net		0.19	0.02	0.33
Net income	\$ 0.69	\$ 0.84	\$ 1.66	\$ 1.74
Dividends declared per share	\$ 0.36	\$ 0.33	\$ 0.73	\$ 0.66
Weighted average common shares outstanding	184.0	122.7	183.6	118.2
<b>Additional shares based on average market price for period applicable to:</b>				
Restricted stock	0.3	0.5	0.3	0.5
Stock options and appreciation rights	2.5	1.8	3.0	1.8
Contingent convertible notes	0.3	0.3	0.3	0.3
Weighted average common and common equivalent shares outstanding	187.1	125.3	187.2	120.8

See accompanying Notes to Consolidated Condensed Financial Statements.



**HARRAH S ENTERTAINMENT, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

(In millions)	Six Months Ended	
	June 30, 2006	June 30, 2005
Cash flows from operating activities		
Net income	\$ 311.0	\$ 209.6
Adjustments to reconcile net income to cash flows from operating activities:		
Income from discontinued operations, before income taxes	(7.3 )	(150.4 )
Losses on early extinguishments of debt	61.1	2.2
Depreciation and amortization	334.1	207.3
Write-downs, reserves and recoveries	3.5	6.6
Other noncash items	18.9	12.9
Share-based compensation expense	23.3	
Deferred income taxes	10.8	(35.1 )
Tax benefit from stock equity plans	0.8	23.2
Minority interests share of income	9.5	5.5
(Income)/losses on interests in nonconsolidated affiliates	(3.1 )	0.2
Returns on investment in nonconsolidated affiliate	1.0	
Net gains from asset sales	(1.1 )	(0.7 )
Net change in long-term accounts	(2.6 )	(81.5 )
Net change in working capital accounts	(67.1 )	(110.1 )
Cash flows provided by operating activities	692.8	89.7
Cash flows from investing activities		
Land, buildings, riverboats and equipment additions	(1,072.0 )	(475.6 )
Investments in and advances to nonconsolidated affiliates	(0.9 )	
Payment for businesses acquired, net of cash acquired		(1,562.2 )
Proceeds from sales of discontinued operations	388.5	605.7
Insurance proceeds for hurricane losses for discontinued operations		